

Direct Bill Methodology

Outcome Desired: ITIB Finance Committee and ITIB approval of direct bill administrative costs, base cost development and refinement, and handling of small agencies for FY04 costs.

Background: As approved by the ITIB in its last meeting, VITA will bill agencies for the direct costs of providing services plus an administrative fee that will cover the administrative costs associated with the Integration phase.

Current Direction: VITA is developing the rate for the direct bill methodology and preparing documentation to be submitted to JLARC for ITIB approval. The rate is based upon new administrative expenses and the projected expense base. Listed below is a summary of the information required for submission to JLARC as part of the Direct Bill request.

Administrative Expense Items

Administrative expenses are based upon the necessary essential overhead necessary for integration, including additional finance, supply chain management, human resources, security and audit staff and related costs; enterprise service directors and large agency transition support requirements; and planning staff for transformation-related activities. These administrative expenses are \$7.6 million and are shown in detail in the table at the end of this narrative.

Projected Spending Base for Administrative Fee

VITA projected a total annual expenditure amount for hardware, software, maintenance, contracts and mapped personnel to be \$107M.

The projected expenditure is being refined through an audit process as VITA meets with each agency to discuss their projection of IT spending for FY05. The projection for agency expenditures including refined projections based on agency submissions will be shown in detail in the JLARC submission. As of March 30, 19 agencies have submitted estimated IT spending plans, adjusting the projected spending to \$106.1 million. VITA expects that 60% of agencies will submit their IT spending plans prior to our submission to JLARC.

Our plan is to include the agency data in the expenditure projection for rate calculation in our submission to JLARC. As a result, our administrative fee will not be firm until we submit to JLARC. For information purposes, using \$107M as the projected expenditure, the administrative fee would be 7.1%.

Agency Impact

VITA is requesting that the direct bill administrative fee be approved retroactively to the on-boarding date of the small agencies and, going forward, based upon the actual on-boarding date for medium and large agencies.

VITA has been paying expenses on behalf of and in support of the small agencies that have already transitioned and have worked with them in preparation for the new rate methodology. We are in the process of notifying the small agencies of their projected bill amounts under the proposed methodology and asking that FY04 funds be held to pay VITA. Generally, these charges will only include those contracts that were in place prior to transition as well as staff costs (salary and benefits) for in-scope personnel transitioned to VITA. Costs imposed on the agency for Standardization and Optimization activities and other requirements will not be charged to small agencies, but will be paid with VITA start-up funds. Once the rate is approved, VITA will immediately provide the small agencies with a bill for FY04 expenses and ask that it be paid prior to year-end.

As agencies transition to VITA, contract management, asset management, vendor bill payment and employee salary payment will be absorbed by VITA. This will lessen the burden on agencies to service these areas, although agencies will likely be unable to directly offset the impact of the administrative fee through hard savings in these areas. Our approach to address the impact of the administrative fee is to identify savings that can be returned to agencies in the form of rate reductions that can then be applied to offset the administrative fee. Our savings methodology addresses this approach in more detail.

Next steps: Consistent with our joint efforts working with the agencies on their IT spending projections, VITA will continue to refine the base expenses prior to final submission to the ITIB and JLARC. As a result, the rate that will be ultimately approved by JLARC will fluctuate up to an agreed upon cutoff date by VITA and JLARC staff so that the most up-to-date information is available.

VIRGINIA INFORMATION TECHNOLOGIES AGENCY
SUMMARY OF ESTIMATED INTEGRATION COSTS & MEL

<u>Directorate</u>	<u>Activity</u>	<u>MEL</u>	<u>Costs</u>
Audit	Audit Staff	3	\$353,300
Financial Management	Strategic Planning/Performance Metrics	1	\$96,500
Financial Management	Finance and Accounting	1	\$47,700
Financial Management	Budget, Planning and Analysis	4	\$353,520
Financial Management	General Accounting & Billing	12	\$856,940
Human Services	Human Resources	6	\$636,552
Security	Security	2	\$200,110
Supply Chain Mngt	Sourcing and Procurement	5	\$447,345
Supply Chain Mngt	Purchasing Systems and Operations	4	\$357,876
Supply Chain Mngt	Contract Management	2	\$178,938
Supply Chain Mngt	Contract Quality & Development and SWAM	3	\$268,407
Supply Chain Mngt	Contract Management System		\$200,000
Customer Support	VDOT large agency support		\$536,000
Customer Support	Enterprise Service Directors	7	\$819,000
Business Services	Asset Inventory/Tagging & Contract Abspn Spt	2	\$563,678
Strategic Management	PPEA Initiatives	2	\$912,448
Computer Services	Facilities		\$671,072
Computer Services	Workstations		\$15,000
Financial Management	Central Payroll Costs		\$90,000
		54	<u>\$7,604,386</u>

Total MEL by Directorate

Audit	3
Financial Management Services	18
Human Services	6
Security	2
Supply Chain Management	14
Customer Support	7
Business Services	2
<u>Strategic Management Services</u>	<u>2</u>
Total	54